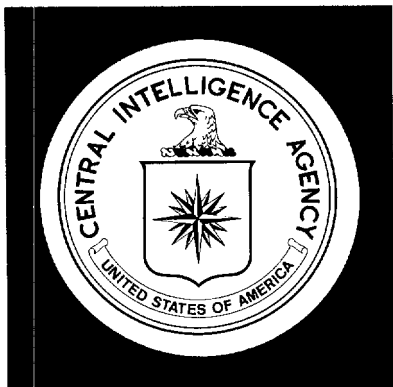


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Weekly Summary

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CG WS 77-007

February 18, 1977

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CONTENTS

February 18, 1977

The WEEKLY SUMMARY, issued every Friday morning by the Current Reporting Group, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Regional and Political Analysis, the Office of Economic Research, the Office of Strategic Research, the Office of Scientific Intelligence, the Office of Weapons Intelligence, and the Office of Geographic and Cartographic Research.

- 1 Europe**
Spain; EC-Portugal; Denmark
- 2 USSR - Eastern Europe**
USSR; Yugoslavia
- 4 Economic**
OPEC
- 4 Africa**
Namibia; [redacted] South
Africa; Angola
- 6 Middle East**
Lebanon-Palestinians
- 6 Asia**
South Korea
- 7 Western Hemisphere**
Brazil

25X1
25X1**8 Israel Prepares for an Election**

25X1

- 14 Egypt: Economic Pressures**
- 15 Rhodesia: Seeking an Internal Solution**
- 17 UK: Defense Cuts Portend Policy Shift**
- 19 North Korea: Pushing Reunification**

25X1

Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly, [redacted]

25X1

Page Denied

Next 1 Page(s) In Document Denied

SECRET

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Europe

SPAIN

Prime Minister Adolfo Suarez' chances of implementing his program to restore democracy to Spain appeared considerably enhanced this week as a result of a recent series of important government initiatives.

In two separate raids on February 11, special police squads rescued unharmed two high-ranking officials kidnaped earlier by urban guerrillas. The raids may also have broken the back of the ultra-leftist October 1 Anti-Fascist Resistance Group, which kidnaped the officials. Over the past two years the organization has been responsible for the murder of nine policemen and sporadic terrorist bombings.

Besides providing a badly needed morale boost for the government and



Prime Minister Suarez

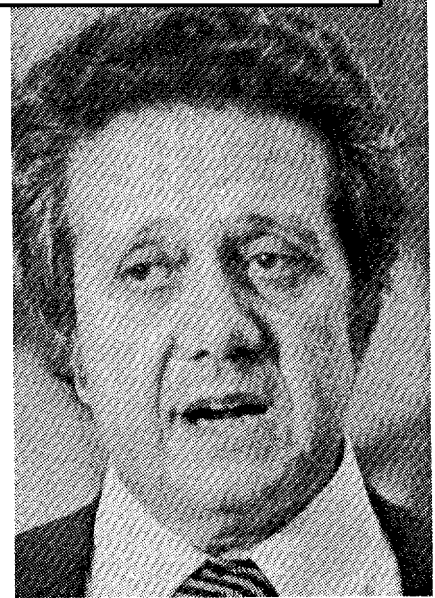
police—who had been publicly criticized for their failure to solve the kidnappings and apprehend those responsible for other recent acts of political terrorism—the rescue clears the way for the release of most of the 200-odd remaining political prisoners. In December, Suarez reportedly held up a plan to broaden the amnesty issued last summer because he did not want to appear to be giving in to the kidnapers' demands for a prisoner release in exchange for their hostages.

Last weekend, the government freed four Basque political prisoners and made a further gesture to the Basques by agreeing to negotiate directly with their guerrilla organization. A release of a large number of Basque terrorists, who comprise the majority of the political detainees, would improve relations between the government and Spain's minority regions, where widespread amnesty demonstrations have recently occurred.

As part of its political liberalization program, the government on February 8 decreed new procedures for registration of political parties that will permit most of them to acquire legal status within 10 days unless there is a presumption of illegality under existing laws. Such cases would be referred to the Supreme Court. Thus, the Communist Party may still be denied legalization and the right to participate in the parliamentary election to be held this spring.

The major opposition parties are apparently satisfied that their demand for equal treatment for all parties has been met and have already applied for legalization. Opposition representatives declared this week that their talks with Suarez on election arrangements had been successfully concluded, and the formal election procedures are expected to be announced shortly.

In a further step away from the Franco era, the government announced on February 9 that it had agreed to establish diplomatic relations with the USSR. In the past few weeks Madrid has established relations with six other East European countries.



Prime Minister Soares

EC-PORTUGAL

Foreign ministers of the European Community agreed last week to accept in principle a Portuguese bid for full membership in the EC. The decision represents a political commitment to the Portuguese, but postpones the more difficult question of how Portugal can be integrated economically and institutionally into the Community.

The ministers made it clear that extensive studies of Portugal's economic problems must be completed before a date can be set for beginning formal negotiations. They also envisaged efforts by various Western countries and organizations to stabilize the Portuguese economy during a transition period.

The Community formulated its position on Portugal in anticipation of visits to all the EC capitals that Portuguese Prime Minister Soares began this week and is to complete in mid-March. Soares has attached overriding importance to securing an EC commitment to his country's membership. He apparently believes that the promise of eventual full membership in the EC will increase public

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PICTORIAL PARADE

confidence enough to aid economic recovery and to discourage any attempts to overthrow his minority government.

France and Belgium had resisted a commitment for full membership, suggesting instead associate status for Portugal. They are concerned over how politically stable Portugal will be over the long term. The French also insist that major adjustments must be made in the EC's agricultural policy before any Mediterranean state is admitted.

West Germany and the UK are Portugal's strongest backers. They argue that the EC cannot reject a membership bid from a democratic European state and that turning down Soares would undermine his political position.

The foreign ministers doubtless intend their statement on Portuguese accession as a signal to Greece and Spain that the EC, in future negotiations for membership, will be influenced strongly by both economic and political considerations. Such negotiations with Greece are already under way; Spain may seek EC membership after its election this spring [redacted]



Prime Minister Jorgensen

positions, lost heavily. All the small parties in this group will probably see the election result as demonstrating the folly of opposing the policies of the Social Democrats too strongly.

Ultrarightist Mogens Glistrup's Progress Party gained 2 seats to regain its position as the second largest party in Denmark, but failed to make the major gains that had been feared in some quarters. The Communists and two other small leftist parties lost a seat among them and will have a total of only 19 in the new parliament.

Jorgensen had managed well for two years, despite his dependence on difficult compromises with the five center-right parties. This informal coalition was disturbed last month when the Liberals balked over a four-part legislative package sponsored by the Social Democrats. It included a four-year defense budget plan, a new housing policy, an employment program, and a tax scheme to finance the other measures.

Although Jorgensen had a one-vote majority without the Liberals, he decided to call an election. Polls at that time showed that his party's popularity was up,

and he knew that economic austerity measures in his legislative package would antagonize some groups when enacted.

The election outcome should make it easier for Jorgensen to win approval for his proposed four-year defense budget. The current budget expires in April, and debate on the new one will probably start soon after the new parliament convenes on March 1. [redacted]

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USSR-
Eastern Europe

USSR

DISSIDENTS

The Soviets have sharply increased their counteroffensive against Western support of human rights in the USSR.

A major editorial in *Pravda* on February 12 emphasized that Moscow views control of internal dissidence as a fundamental ideological issue. The article, doubtless cleared by the Politburo, is a definitive statement of the Soviet position on human rights as a factor in international and especially US-Soviet relations.

The lengthy *Pravda* article served notice to dissidents that further agitation will be viewed as subversion and called for "high vigilance" against such "noxious remnants" of the old bourgeois society.

The article was intended primarily for the West however—particularly the US. It charged Western opponents of detente with organizing a propaganda campaign on human rights that is allegedly designed to slander socialism, undermine the Helsinki accords, and sow confusion and disunity in the communist movement.

The article raises Soviet views on dissidence to the level of authoritative, unequivocal policy. It also indicates that Western attention to Soviet domestic conditions and the impact of this attention on Soviet foreign policy goals are an in-

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DENMARK

Prime Minister Anker Jorgensen's Social Democratic Party made major gains in the national election held on February 15. The result gives him greater leeway to choose between continuing his minority government or forming a coalition with some or all of the five small center-right parties that supported the old government.

The Social Democrats increased their strength from 53 to 65 seats in the 179-seat parliament. Two of the three parties that had cooperated most with the government—the Center Democrats and the Conservatives—gained substantially, while the Christian People's Party lost 3 seats. The Liberal and Radical parties, which had voted with the Social Democrats in the old parliament but had recently staked out more independent

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creasing source of irritation to Moscow.

Foreign support is often the dissidents' only defense against persecution. The Soviet and East European regimes have nevertheless cracked down whenever they have felt that outside support impinged on internal discipline or ideological principles.

The Soviets have taken the position that this situation now exists and that the arrests of Yuri Orlov and other leaders of the unofficial group monitoring Soviet compliance with the Helsinki accords must be seen in that light. *Pravda's* references to the dissidents' violations of Soviet laws suggest that at least some of them will be tried, regardless of the cost to the Soviet image abroad. This, in turn, indicates that Moscow has decided to meet the human rights issue and the Western challenge head on.

PAYMENTS POSITION *71*

After two years of large hard-currency deficits, the Soviet payments position is likely to improve substantially in 1977. The USSR will have to continue the cautious approach it adopted last year, but it should be able to hold the trade deficit to between \$3 billion and \$4 billion and to lessen its dependence on Western commercial banks.

Western economic recovery should allow the Soviets to increase the value of their exports to around \$12 billion; grain imports are likely to be cut by up to \$2 billion because of the record 1976 grain harvest.

The Soviets already have arranged for long-term credits from Western governments to cover a substantial portion of their equipment and pipe imports this year. Credit market conditions in the West will largely determine the extent to which the USSR will repay its short-term debt and the amount by which it will increase nongrain imports.

The USSR will continue to be constrained in obtaining general-purpose credits on private money markets, especially at acceptable interest rates. Its net hard-currency debt is now roughly \$14 billion, and more Western banks are at or near lending limits.

The Soviets incurred a hard-currency trade deficit of \$6.4 billion in 1975 because they imported massive amounts of Western grain at a time when the Western recession held down Soviet export earnings. The Soviets reacted with heavy, short-term borrowing from the West, which brought many major US and West European banks close to their lending limits.

Moscow took several steps during 1976 to reduce the size of its trade deficit and its need to borrow from Western banks. The Soviets reduced nongrain imports, increased gold sales—despite falling prices during most of the year—and minimized cash outlays, in part by deferring some payments until 1977. Continuing heavy grain imports, however, resulted in a \$5-billion hard-currency trade deficit and a \$2-billion rise in Soviet debt to Western commercial banks, although most of the new borrowing was apparently medium- rather than short-term.

YUGOSLAVIA *12-13*

President Tito this week advanced Veselin Djuranovic, the party leader of the Montenegrin Republic, to the premiership of Yugoslavia, which became vacant last month when Djemal Bijedic died in an airplane crash. The selection appears to set the stage for more high-level changes.

Djuranovic apparently has not had a major role in the personal infighting that takes place in the Yugoslav leadership. He may have been a compromise choice for the premiership, after other stronger contenders canceled themselves out in what was probably a sharp contest for the post. His record in keeping order among the proud and troublesome Montenegrins may also have been a factor in his selection.

Djuranovic, who is 52 years old, is considerably younger than most of the other top leaders. His experience has been largely confined to Montenegro, and he

may have trouble adjusting to his new national responsibilities. One of his predecessor's principal duties was lobbying in the republics for Belgrade's economic programs and policies. Djuranovic has little economic experience.

The ethnic composition of the federal government now heavily favors Serbs and Montenegrins, who hold three of the five senior positions in the Council of Ministers. In addition, the foreign affairs and defense portfolios are held by Serbs.

Serbs and Montenegrins make up less than 45 percent of Yugoslavia's population, and the other minorities will now insist that they get their proper share of top-level positions. If the leadership does not act quickly to right the imbalance, it will face increasing nationalist strains.

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Premier Djuranovic

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Economic

OPEC

The economic upturn in industrialized countries and a buildup of Western oil reserves in anticipation of the January 1 oil-price hike helped most members of the Organization of Petroleum Exporting Countries to enlarge their foreign trade surpluses last year. The current-account surplus for OPEC as a whole rose to \$40.2 billion as oil exports reached new highs.

Saudi Arabia, Kuwait, and the United Arab Emirates accounted for three fourths of the combined surplus. Four OPEC members—Algeria, Indonesia, Ecuador, and Gabon—were in deficit last year. Iran's surplus went up by \$2.5 billion in 1976 after a \$9.8-billion decline the year before.

Despite increased earnings for OPEC countries, the growth of their imports from the West slowed last year. Financial constraints in some countries, a slowdown in the implementation of development plans, and transportation bottlenecks contributed to this. Average prices paid by OPEC countries for imports rose only 1 percent last year, but outlays for foreign services, insurance, and freight increased substantially.

OPEC grant assistance to developing countries fell to \$2.2 billion in 1976—a \$400-million decline from 1975. Reduced payments to Syria, Egypt, and Jordan and greater use of concessional lending accounted for the decline. Saudi Arabia was the only major OPEC country that significantly increased its level of grant aid; Kuwait, Qatar, and Iraq cut theirs sharply. The Saudis now provide 70 percent of total OPEC grant assistance.

OPEC's current-account surplus probably will not rise this year and may fall slightly if the Saudis make good on their promise to increase production sufficiently to force the 11 OPEC countries that hiked prices by 10 percent on January

1 to drop them back to the 5-percent increase adopted by Saudi Arabia and the United Arab Emirates. The volume of OPEC oil exports will probably rise by roughly 3 percent in 1977. Coupled with an estimated average price rise of 8 percent, the group's earnings would increase by about \$12.4 billion. The increased earnings are likely to be offset, however, by a 15- to 20-percent rise in OPEC import expenditures.

Africa

NAMIBIA

White and nonwhite delegates continue to spar vigorously on behalf of their groups at the multiracial Namibian constitutional conference that has been under way since September 1975 in Windhoek,

the capital of the South African - administered territory.

The 11 participating ethnic delegations—one white and ten non-white—are trying to work out bases for an interim regime that would prepare the territory for independence in cooperation with Prime Minister Vorster's government in Pretoria. Last year, the conference proposed a target date for independence of December 31, 1978.

A representative special working committee of the conference, created in January, has reportedly reached agreement on provisions that would vest extensive powers in a central authority, as favored by the nonwhites. Most decisions by an executive council of ministers, however, would be by consensus, as in the constitutional conference; each ethnic group would have one representative on the council. The committee is also said to have largely agreed on the composition and functions of a "second tier" of government based on the ethnic groups.

Earlier this month, the moderate white

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ANGOLA

Agostinho Neto's regime has apparently received its first significant naval craft from the USSR.

[redacted] Armed with two twin 14.5-mm. machine guns and capable of speeds up to 28 knots, the boat is well suited for harbor and coastal patrols.

Angola's navy consists mainly of a few small former Portuguese craft, most of which are not in good condition. [redacted]

The Zhuk-class boat delivered last month probably was part of a large Soviet aid agreement signed last May during Neto's visit to the USSR. [redacted]

Middle East

LEBANON-PALESTINIANS

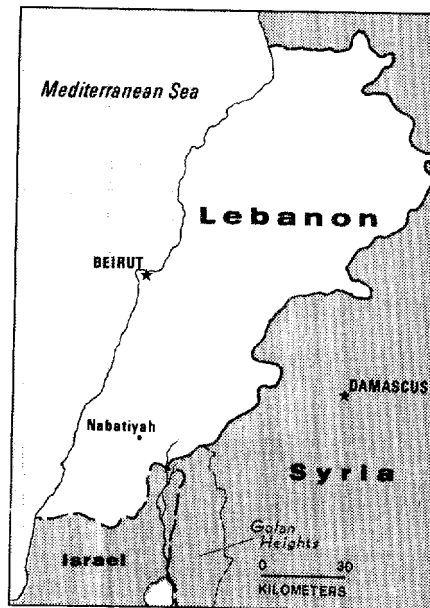
The Arab states supervising the truce in Lebanon, led by Syria, took new measures this week to curb the Palestinians there, doubtless with an eye to facilitating Arab-Israeli peace negotiations.

On February 12, the committee of representatives of Syria, Egypt, Saudi Arabia, and Kuwait that is charged with overseeing the cease-fire arranged last fall reportedly imposed tough restrictions on Palestinian political and military activity in Lebanon. The new rules supplant the 1969 Cairo accord, which the Palestinians were able to exploit to turn their presence in Lebanon into a near state-within-

a-state. Palestinians are now to be prohibited from possessing arms and ammunition outside yet-to-be specified "border regions" near Israel. Within the refugee camps, arms are to be limited to "light, individual weapons" in the hands of the Palestinian police force.

Politically, any Palestinian rallies, demonstrations, and press statements would require advance approval by Lebanese authorities, and fedayeen-operated radio stations are prohibited.

Two days before the new curbs were announced, troops of the Arab peacekeeping force, comprised mainly of Syrians, once



more brought raw force to bear against recalcitrant Palestinian elements holed up in refugee camps near Beirut. Sharp clashes occurred on February 10 and 11 in which the Syrians pounded strongpoints of "rejectionist" Palestinians with tank artillery and mortars.

Although the Syrians did not force their way into the camps, they effectively sealed them off until February 15, when the Syrian pressure was relaxed. The Syrians may have decided to avoid risking a major showdown with the Palestinians just as Secretary Vance was beginning a visit to the Middle East. President Asad remains

determined to prevent the rejectionists or any other Palestinians from interfering in the peace process, however, and the Syrians may soon employ their force to seize the heavy weapons still held by fedayeen in the camps.

In southern Lebanon, meanwhile, tension engendered by the movement last month of a small number of Syrian troops to Nabatiyah—only a few miles from the Israeli border—has eased as a result of a Syrian pullback. Their presence in the area had sparked rumors last week of Israeli troop movements and tough Israeli public statements that were probably intended to elicit US support for Israel's position. [redacted]

Asia

SOUTH KOREA

The South Korean government in recent months has relaxed its enforcement of Emergency Measure Nine—the principal emergency measure still in effect—and shown greater leniency toward dissidents. The easing of pressure on them appears primarily to reflect the Pak regime's growing sensitivity to foreign, especially US, interest in the issue of human rights.

Signs of the relaxation have been evident since November:

- Prison conditions for opposition leader Kim Tae-chung and poet Kim Chi-ha have improved.
- Newspapers are enjoying greater freedom in handling foreign stories and imported foreign-language publications are largely escaping censorship.

President Pak's willingness to loosen controls also shows his increased confidence following a year and a half of

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relative quiet on the domestic scene. There is widespread public acquiescence in Pak's style of leadership. In view of a continued North Korean threat, few in the South are willing to challenge the government's contention that national security considerations override civil liberties.

Many South Koreans, moreover, are more impressed by the substantial economic gains achieved during Pak's 15 years in office than by postwar guarantees of freedoms that are alien to Korean political tradition.

The virtual disappearance of an organized opposition also has buoyed Pak's confidence. Key opposition spokesmen have been kept in jail or on probation and are no longer able to marshal support. The press, the academic community, and the church are unable and unwilling to challenge the regime.

The promulgation in 1975 of Emergency Measure Nine met with almost no protest; two earlier measures had been the focus of organized protest until they were lifted in mid-1974.

Should Pak seek a further relaxation of government controls, he is likely to continue modifying his enforcement of Emergency Measure Nine and his use of police and KCIA surveillance. Any significant criticism of the government, however, could lead to a renewal of repressive measures.



Brazilian Minister of Energy Shigeaki Ueki (l) and West German industrialist Peter von Siemens sign the nuclear cooperation contract last July

Western Hemisphere

BRAZIL

54-56

President Geisel's domestic political position is being strengthened by his refusal to consider revisions in the Brazilian - West German nuclear accord or to delay its implementation. The support Geisel is receiving from military leaders and politicians in both political

parties on the issue is apparently in turn stiffening his resolve to stand fast.

Under the agreement, which was concluded last June, West Germany will sell Brazil plants for enriching uranium and reprocessing spent fuel.

Until a few weeks ago, opposition to Geisel appeared to be growing. One of Brazil's leading newspapers strongly attacked his year-end address because he failed to admit any responsibility for current economic problems. In mid-January, a presidential decision to add a surcharge to the price of gasoline sparked more public criticism and threats of major strikes by bus and taxi drivers in Sao Paulo.

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These problems are not resolved, but Brazilians have apparently rallied behind Geisel on the nuclear deal. Even widely circulating rumors that the administration will not permit direct elections for state governors in 1978 and that Geisel intends to reorganize the party structure before the legislature reconvenes next month have provoked little public comment, although there is much uneasiness in opposition circles over them.

In the past, Brazilian governments have rarely used foreign policy issues to rally domestic support. Brazil regards nuclear development, however, as essential to its technology and economic progress.

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Wives of South Korean dissidents stage a silent demonstration last year demanding the release of their husbands; at the right is Mrs. Kim Tae-chung and at the left is Mrs. Yun Po-sun

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Party politics will dominate the domestic scene in Israel as the country moves toward a national election in May. Caretaker Prime Minister Rabin faces a stiff challenge from Defense Minister Peres for leadership of the long-dominant Labor Party; the question is to be settled at the party convention next week.

Israel Prepares for an Election

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Israel's national election on May 17 is likely to be the closest in the country's history. The governing Labor Party, which has generally dominated Israeli politics since independence in 1948, is in trouble and could emerge considerably weakened. It might even lose to the right-wing Likud bloc by a narrow margin.

The election results could thus have a significant impact on the timing and pace of Arab-Israeli peace negotiations.

Labor's election prospects have been badly hurt by rampant inflation, labor unrest, corruption scandals, and popular disenchantment with Prime Minister Rabin's lackluster leadership. The eight-year alliance with the left-wing Mapam party may be on the verge of collapse; the two parties comprise the Labor Alignment, the core group in the coalition government. The Labor Party itself faces a potentially divisive struggle between Rabin and Defense Minister Peres at its pre-election convention, which opens on February 22.

A switch in leadership could boost Labor's sagging prospects. The most recent public opinion polls in Israel show a high degree of voter uncertainty. New parties such as Yigael Yadin's moderate Democratic Movement for Change and General Arik Sharon's right-wing Shlom Zion—which otherwise might not do well—stand to gain the most from voter unrest.

Yadin, a former chief of staff, ap-

parently has already begun to cut into Labor's traditional strength. As a result, many observers believe that the Alignment is at best running even with the conservative Likud.

Should this trend continue, Labor will lose the election or will be forced to form

a national unity government with Likud. In that event, the next Israeli government would almost certainly take a harder line on peace negotiations, especially on the question of withdrawal from the West Bank, which Israel has occupied since the 1967 Middle East war.

Present Knesset Representation (Total: 120)

Caretaker Government	Seats
Labor Alignment:	50
Labor Party (43 seats)	
Mapam (7 seats)	
Allied Arab Lists (electorally tied to Alignment)	3
Independent Liberal Party	4
	<u>57</u>
Other Parties	
Likud bloc (Herut, Liberal Party, State List, and Land of Israel)	39
National Religious Party	10
Religious Front	5
Rakah (Communist, mostly Arab)	4
Yaad (new liberal grouping)	4
Moked (ultra-left)	1
	<u>63</u>

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A Labor victory would offer the best prospect for a resumption of negotiations and subsequent progress. Rabin would probably be more flexible than any other prospective leader and would likely seek a common approach with the US to talks at Geneva.

Even Rabin, however, would continue to resist Arab demands that the Palestine Liberation Organization be included in the negotiating process on an equal footing with the participants in the December 1973 opening—and so far only—session of the Geneva Conference on a Middle East settlement. Moreover, he would most likely return to office with a weaker mandate than before. His room to maneuver on the PLO question and other matters would be constricted by his likely greater dependence on the support of hard-liners, led by Peres and former defense minister Dayan, both in the ruling coalition and in the Labor Party itself.

Under the best of circumstances, then, the Israelis will urge the US to proceed cautiously after the election. They will resist any attempt to push them further and faster than they are prepared to go in making territorial concessions that they believe would:

- Compromise Israel's vital security interests.
- Encourage the Arabs to press even harder for the return of territory that Israel is forever unwilling to give back.
- Precipitate a domestic political crisis.

Labor's Troubles

The three national elections since 1965 all resulted in an erosion of Labor's strength in the Knesset. After the most recent election—held two months after the traumatic October 1973 war—Labor's leaders had a difficult time reestablishing a governing coalition.

The party's preeminent personalities—Golda Meir, Moshe Dayan, Abba Eban—were all badly tarnished by their failure to anticipate the Arab attack in time to take effective countermeasures. Their fall from grace set in motion those forces for change in the party leadership



Yigael Yadin



Asher Yadlin

that, in May 1974, pushed Rabin to the top.

Under Rabin, however, the party has not been able to refurbish its image or to stop deterioration in the party organization. A political novice when he took office, Rabin has shown little flair for domestic politics and distaste for internal party affairs. He has not proved as bold or innovative on policy matters as many of his early backers had hoped. His tendency to react or procrastinate instead of taking

the initiative has left him vulnerable to charges of being weak and indecisive.

Rabin decided to force an early election in hopes of arresting the decline in his personal popularity and forestalling the challenge to his party leadership by Peres. Rabin's strategy was dealt an initial serious blow in early January when Housing Minister Ofer, a close adviser, committed suicide under the pressure of an investigation of corruption charges against him.

This week Rabin sustained a potentially more damaging blow when Asher Yadlin, an influential party figure whom Rabin had nominated last fall to head the Bank of Israel, suddenly stopped contesting corruption charges and admitted he had channeled illegal funds into party coffers. These developments have probably enhanced Peres' chances of winning Labor's nomination for the premiership; they have also surely hurt Labor's prospects for the election.

The party on February 23 will choose a candidate to head its electoral list by a secret ballot among the delegates to the party convention. At present, Peres appears to have a fair chance to gain the nomination. He will, however, have to overcome strong opposition both from Foreign Minister Allon's faction and from Golda Meir and other old-line party figures who have never forgiven him for bolting the party with former prime minister Ben-Gurion in 1965. No matter who wins the nomination, Labor could enter the election campaign deeply divided.

Should Rabin get the nod, he will campaign on foreign policy and defense issues, hoping to portray the Labor Party as best qualified to negotiate with the Arabs and to protect Israel's security interests while keeping relations with the US on an even keel. Rabin doubtless hopes that his tentative invitation to visit Washington sometime in March will be read in Israel as a US endorsement of his leadership.

During the 1973 election campaign Labor succeeded in depicting the Likud bloc as the "war party," and Rabin will probably try to do so again. This time it

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will be more difficult. Likud is trying to put its hard-line position on negotiations in a more favorable light, stressing its readiness to make territorial compromises on the Golan Heights and in the Sinai in exchange for "real peace" with the Arabs.

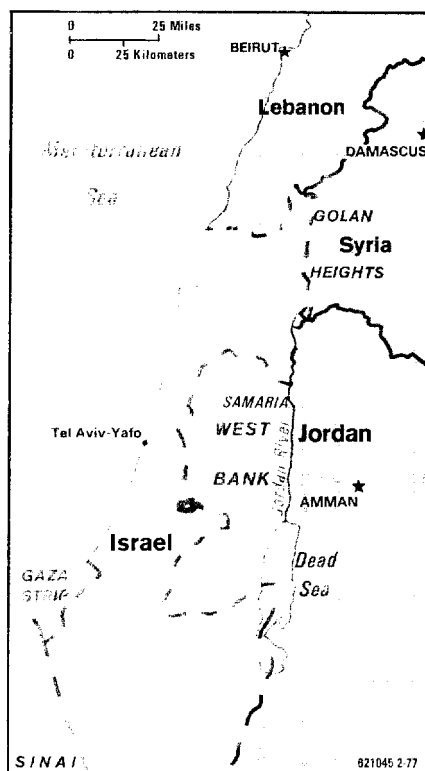
Labor is also on the defensive on domestic issues. In addition to its vulnerability on the corruption issue, its opponents are likely to charge the party with "mismanagement" of the economy and a poor record on social and political reform.

As the party nominee, Peres would probably try to gain the initiative by promising more dynamic leadership and a fresh approach to domestic problems. He has already indicated that he would push for election reform—a popular issue—and would put "new faces" in his cabinet. His candidacy could cut Labor losses—provided it does not split the party's ranks—but it would be unlikely to result in a net gain of Knesset seats.

On the other hand, if Peres is nominated, Mapam will probably break with Labor and run its own list of candidates. It may do so anyway, unless Labor meets Mapam's demand that the Labor platform explicitly refer to the government's readiness to make territorial concessions on the West Bank—something Peres and other Labor hard-liners oppose. A break between Labor and Mapam would greatly improve Likud's chances of emerging as the largest bloc in the Knesset after the election.

In any event, the complexities of the Israeli political system make it difficult to predict the shape of the next coalition government. Nine established parties and two major new ones will be competing for the 120 Knesset seats. Because the election results are likely to be the closest ever, several combinations of parties are possible. The most likely are:

- A somewhat weaker Labor-led coalition that would include Mapam, the small Independent Liberal Party, and Yadin's Democratic Movement. Since this would, at most, give the coalition a razor-thin majority in the Knesset, Rabin or any



other Labor prime minister would probably try to enlist the hard-line National Religious Party.

- A National Unity government composed of Labor, Likud, and the National Religious Party, with Peres or possibly Likud leader Begin as prime minister.

- A right-wing government led by Likud with Begin as prime minister. It would probably also include the National Religious Party, Sharon's new party, and the other conservative religious parties.

Implications for Peace Talks

Whatever coalition emerges will probably have only a limited mandate for renewed negotiations with the Arab states. A Labor-led government under Rabin or another Labor moderate would be constrained, as always, by ingrained Israeli suspicions of Arab intentions and by the influence of coalition hard-liners. They would probably offer no more than limited territorial withdrawals in exchange for formally ending the state of war between Israel and the Arabs.

The ability of a moderate Labor government to negotiate over the West Bank would be especially restricted. In 1974, Rabin renewed a promise made earlier by Golda Meir to hold a new election before signing any agreement involving territorial concessions on the West Bank. Like Meir, Rabin made this commitment in order to secure the participation of the National Religious Party in his cabinet and thus guarantee himself a stronger majority in parliament. He would probably do so again.

A Labor-dominated government under Peres would probably take a tougher, more independent line. He might, however, be just as willing as Rabin to conclude interim agreements with Syria and Egypt to end the state of war and would probably be prepared to make about the same territorial concessions in the Sinai and on the Golan Heights.

Both Rabin and Peres oppose negotiations with the PLO and the establishment of an independent Palestinian state and would prefer to cede territory on the West Bank only as part of a final peace agreement with Jordan.

Peres, being more politically adept and decisive, might be more willing than Rabin has been to take the initiative in shaping public opinion. As a man of the right, he would be more influential with Likud, the National Religious Party, and the Labor hawks and would be more able to gain their acceptance of any agreement with the Arabs.

As prime minister, Peres might turn out to be more flexible on an end-of-war agreement over the West Bank than he has been thus far as a leader of the hard-liners in the Labor Party. Much would depend on the pressures and incentives he faced and on whether he felt he could bring other hard-liners along with him.

Peres will likely have a prominent voice in future negotiations, whether or not he becomes prime minister. Just as Rabin could not conclude the second Sinai accord without Peres' support, so Peres' support will be needed for any future negotiations with the Arabs by a Labor-

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led government.

In a national unity government—led by Peres or Begin—hard-liners would constitute a clear majority. Its willingness to negotiate new interim agreements would depend in part on Peres' ability to persuade Begin to drop his opposition to territorial concessions in the Sinai and the Golan Heights in return for anything less than a final peace settlement.

The West Bank problem would be the most difficult—and perhaps impossible—to resolve. Likud and many in the National Religious Party have long favored outright annexation of the West Bank for security, historical, and religious reasons. Labor hawks like Peres and Dayan would be more willing to give up the heavily Arab-populated areas as part

of a final peace agreement, but they also believe for security reasons Israel must indefinitely retain a strong military presence along the Jordan River and in the mountains of eastern Samaria.

A government led by Begin would be the most difficult of all to deal with. At a minimum, strong and sustained US pressure would be needed to extract concessions, and a Begin government might still refuse to negotiate on any terms but its own.

Timing at Geneva

Because neither Labor nor Likud is likely to win more than a slim plurality in the election, creating a viable coalition will probably be even more arduous and time-consuming than last time and could extend well into the summer. This would

preclude serious peace negotiations until late summer or early fall, although the Geneva conference could possibly resume before then to discuss procedural matters.

The present Labor-led caretaker government will remain in power until a new government is formed. It would probably agree to reconvening the Geneva talks, especially if Labor is to head the next government or if there were a consensus among Israeli political parties to go to Geneva in order to establish momentum for later, more substantive talks. Indeed, Rabin might agree to attend a ceremonial reopening of the conference—provided the PLO is not invited—even before the election in hopes of boosting Labor's prospects at the polls.

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Although Egypt has brighter prospects for obtaining substantial foreign aid than at any time in recent years, political and economic constraints are likely to preclude an expansion of the economy sufficient to ease rising consumer pressure on the Sadat regime.

Egypt: Economic Pressures

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Rioting by Egypt's normally docile population last month underlined dramatically the political-economic tightrope that President Sadat is walking. The rising expectations of the people constitute the most pressing problem facing Sadat or any successor regime. They are not likely to be fulfilled any time soon.

For almost a decade, the problem among urban Egyptians was kept under control by the threat of war. Both Nasir and Sadat were prevented by a lack of foreign exchange from increasing consumption in the import-dependent economy and therefore blamed economic hardship on the confrontation with Israel, in effect promising a better life when the confrontation ended.

To the average Egyptian, however, the second Sinai agreement of September 1975 marked the end of war and the beginning of a perplexing new economic era. Relaxation of the economic restrictions imposed under Nasir exposed Egyptians for the first time in two decades to the conspicuous consumption of a rich elite and to the uncertainties of market forces.

For a time, the opportunities offered by growth in the private sector offset the effect of the excesses of the newly rich and the impact of worsening inflation. Public tolerance, however, was pushed past the limit last month by the government's badly bungled attempt at further economic

reform aimed at curbing the huge deficit in the Egyptian state budget. By summarily slashing consumer subsidies—many of which had been in effect since 1948—Cairo forced consumer prices sharply upward. Sadat quickly restored the subsidies when serious rioting erupted on January 18.

Ironically, the economically-motivated explosion that jolted Sadat's regime has come at a time when Egypt is in far better financial shape than it was at the beginning of 1975 or 1976. Thanks largely to rising Egyptian oil output and the resumption of subsidy payments from other Arab states, Cairo's unfinanced foreign payments gap this year will be \$1 billion at most, compared with \$2 billion last year.

Most of Egypt's 1976 overdue debt service payments have been paid off with a \$250-million direct loan from the newly established Gulf Organization for Development of Egypt and a \$250-million bank loan guaranteed by the same organization.

In addition, the subsidies authorized at the 1974 Arab summit in Rabat but suspended since 1975 have been restored; \$570 million has been authorized for 1977. Another \$570 million in retroactive 1976 payments may be approved. Other subsidies from Arab donors, US aid, project aid from other sources, and some private investment will provide another \$1.4 billion.

Sadat now doubtless expects substantial amounts of new cash aid from conservative Arab states to help his regime in the wake of the disorders. Armed with this expectation but threatened by the prospect of further civil unrest, Sadat is seeking to modify an economic reform package proposed by the International Monetary Fund.

The terms of the package—currency devaluation, reduced subsidies, and other measures—are designed to realign domestic prices, reduce the role of the public sector, and control inflation. They will also result in reduced consumption over the short run.

The political risks to Sadat of such measures have been multiplied by his loss of stature during the January riots. On the other hand, Sadat believes he can now dilute the reform program and still count on conservative Arab states to come up with new cash aid.

A slowdown in implementing the Fund reforms will force Egypt to continue to depend heavily on foreign aid rather than private foreign capital. During the 1978-80 period, at least \$5 billion will be needed to finance the foreign exchange component of investment in plant and equipment.

Another \$5 billion in balance-of-payments support or debt relief will be required to provide a small increment in urban consumption levels and to permit some progress in renovating Egypt's

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economic infrastructure. Much more substantial foreign aid will be needed if expectations for Egypt's major export industries, especially oil and tourism, are

not realized.

Even if foreign exchange supplies are ample, Egypt's ability to increase imports will be limited for several years by

bottlenecks in port capacity and the internal distribution system. In turn, import constraints will limit the growth of the economy and of consumption. [REDACTED]

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Prime Minister Ian Smith intends to bypass the nationalist guerrillas and their political leaders and work out a political settlement with cooperative blacks inside Rhodesia that he can portray as fulfillment of the settlement terms he agreed to last fall.

Rhodesia: Seeking an Internal Solution

[REDACTED]
In the wake of the breakdown of the Geneva Conference on the Rhodesian dispute, Prime Minister Ian Smith is apparently pushing ahead with a plan for an "internal solution." His idea is to reach a settlement with urban and tribal blacks who have worked within the white settler regime in the past and with any moderate nationalists willing to do so now. Smith probably intends to make whatever arrangements he works out appear to conform with the settlement terms he accepted last September.

In pursuing this course, Smith is taking a major gamble, although he probably regards it as a calculated risk with a good chance of success.

The possibility of such a solution was never far from Smith's mind during the Geneva talks. The idea probably took firmer root in his thinking when it became evident that the nationalists were as divided as he had expected.

Throughout the negotiations, he maintained that a broad segment of Rhodesia's black population was not represented by the participating delegations. After the talks adjourned, he suggested on numerous occasions that other Rhodesian

blacks, such as tribal chiefs, be invited to attend when the talks resumed.

In a speech on January 24 explaining his rejection of British proposals designed to enable the recessed Geneva talks to start up again, Smith made it clear that he would seek a settlement with blacks he regards as moderates. At the same time, he reiterated his commitment to the terms he agreed to last September.

The Next Move

The one disappointment Smith suffered at Geneva was the durability shown by the "Patriotic Front" alliance between Joshua Nkomo, with whom he had negotiated before, and Robert Mugabe, spokesman for most of the guerrillas. Smith felt that the alliance would not hold and that Nkomo would become quickly disillusioned with Mugabe, a rank terrorist in Smith's eyes, and return to a "reasonable" position.

Instead, a polarity developed between the Front and the rival nationalist delegations of Bishop Abel Muzorewa and Ndabaningi Sithole. The polarity was strengthened in early January when the five African presidents directly involved in the Rhodesian settlement effort threw their support officially behind the

Patriotic Front. Smith clearly plans to take advantage of the resentment that Muzorewa and Sithole harbor toward the Front and the front-line presidents to try to woo them into a settlement.

Smith is likely to move cautiously, however. For a start, he indicated in a press conference on February 4 that he is considering a test of black public opinion to find out which nationalist leader commands the most support in Rhodesia.

Smith believes Muzorewa will prove to be that leader. Although the level of support among Rhodesian blacks enjoyed by the various nationalist chiefs has never really been demonstrated, Smith bases his belief in part on the fact that Muzorewa comes from a subgroup of the Shona peoples, who make up over 70 percent of Rhodesia's black population. Muzorewa also made an impression by his leadership of a successful African effort to defeat an unpopular British settlement plan in 1972.

Smith has publicly stated that Muzorewa would be "acceptable" in a settlement. Although Smith would also welcome Sithole and Nkomo into negotiations—if Nkomo breaks with Mugabe—Rhodesian officials reportedly believe a key role for Muzorewa is crucial

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to the success of the plan for an internal solution. The Smith government intends to approach Muzorewa when he returns from his current tour of Scandinavia.

Muzorewa, for his part, has publicly rejected the idea of independent negotiations with Smith and denied charges that he has struck a deal with the Prime Minister. In fact, his position may be more flexible than that.

Neither Muzorewa nor Sithole, weak as their positions are in the nationalist movement these days, can afford to become publicly linked to negotiations with Smith. The more support the front-line states give to the Patriotic Front, however, the more Muzorewa and Sithole will be pushed to the periphery, leaving their political future largely in

Smith's hands. Moreover, Smith can help hasten their estrangement from their fellow nationalists by simply continuing to hint that they are "acceptable."

No Talks Soon

Nothing resembling formal negotiations between the white regime and the blacks it is prepared to deal with is likely to take place in the near future. For now, Smith can afford to remain somewhat aloof from any direct engagement with the nationalists. Using the indirect approach, he has lifted the detention orders against a number of Muzorewa's chief deputies, suggesting a willingness to allow Muzorewa's group to engage in political activity inside the country.

In contrast, Rhodesian security of-

ficials recently detained a number of Patriotic Front supporters who were setting up a political wing—the People's Movement—inside Rhodesia.

Thus, while the various nationalist leaders and their followers try to shore up their political positions following the abortive Geneva talks, Smith can manipulate political and social conditions within the country to favor those nationalists he perceives to be receptive to an internal settlement. At the same time, he can implement a number of modest reforms beneficial to blacks in the hope of demonstrating good faith and attracting support for the settlement he has in mind.

Smith apparently believes that if he can arrange a settlement inside Rhodesia that conforms structurally to the terms he accepted last September, then the US and the UK cannot reasonably reject it. He would almost certainly use such a settlement as a basis for arguing that his government should be relieved of the economic sanctions imposed against it and given positive support.

The ruling Rhodesian Front Party has endorsed Smith's decision. In addition, Smith may have obtained South African Prime Minister Vorster's approval during his visit to Cape Town last week. Smith apparently feels confident that while he is working on his internal solution the South Africans will not apply pressure on him to return to Geneva.

The Guerrilla Problem

Smith fully realizes that moves toward an independent settlement will not deter the guerrillas from military operations in Rhodesia, but may in fact spur them to greater efforts. He thus foresees a period of intensified military activity by both sides. He pressed home that point to Rhodesian whites in his press conference on February 4.

Smith has made it clear there will be no skimping in support of the military, on which he is dependent to buy him the time he needs to implement his settlement plan and to show the nationalists that it is he, not they, who can use military pressure to force a political solution.

Prime Minister Smith's Five Point Transition Plan*

- Rhodesia agrees to majority rule within two years.
- Rhodesian authorities will meet immediately with African leaders to organize an interim government.
- Interim government will consist of:
 - Council of State: Half African, half European, European chairman with no special vote. Functions to include legislation, general supervisory responsibility, supervision of drafting of constitution.
 - Council of Ministers: African majority and African first minister. Decisions by two-thirds majority. Defense and law and order ministers to be European. Functions to include delegated legislative authority, executive responsibility.
- UK will enact enabling legislation. Rhodesia also will enact necessary legislation.
- Upon establishment of interim government, sanctions will be lifted and all acts of war will cease.

*Announced September 24, 1976.

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The Callaghan government has proposed cutbacks in Britain's defense spending that could well affect the strategic balance in Europe. Major reductions in the UK contribution to NATO would have a strong impact both on the political cohesion of the Alliance and on the East-West force reduction talks.

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UK: Defense Cuts Portend Policy Shift

[redacted]
A government white paper on defense [redacted] reveal a \$342-million reduction in the planned level of British defense spending for the fiscal year beginning April 1. Prime Minister Callaghan intends to cut an additional \$393 million from military spending next year.

The figures, which work out in real terms to a spending reduction of about 3 percent in the first year and an additional fraction of a percent in the next, will have a negative impact on the UK's balanced air, sea, and land contributions to NATO. The steady economic and political pressures that forced Britain after World War II to recognize that it could no longer maintain global military capabilities now confront the Labor government with some equally unpleasant realities much closer to home.

A major reduction in the UK's military establishment—coupled with the nation's weakened economy—would diminish Britain's stature and influence among its allies. Large cutbacks in the UK contribution to NATO, moreover, could affect the strategic balance in Europe because of its impact on the political cohesion of the Alliance and on the East-West force reduction talks.

Economy Measures

These reductions will be the latest in a series of defense cutbacks instituted by the Labor government since it returned to

power in 1974. Government spokesmen have tried—with decreasing success—to convince domestic critics and Britain's NATO partners that the reductions affect “only the tail and not the teeth” of Britain's military forces.

Defense Secretary Mulley is now edging toward a more forthright public assessment. In announcing the new reduction in December, he said the measures would have “the absolute minimum impact” on the UK's front-line contribution to the Alliance.

In 1975, the Labor government published a plan aimed at reducing British defense resources over a 10-year period to levels closer to those of West Germany and France, which currently spend 3.5 to 4 percent of their gross national products on defense. Most of the reductions were slated for the later years of the program, but economic constraints and political pressures from left-wing Laborites forced the government to impose additional reductions in the early stages.

The defense budget for the current fiscal year is about \$9.6 billion, more than 5 percent of GNP. Planned spending for the next two fiscal years, including the cuts announced by Mulley, is \$9.339 billion and \$9.3 billion, respectively, in 1976 prices. The government will be able to provide some protection against inflation and sterling fluctuations by voting supplementary defense appropriations, such as the \$880 million special authorization passed last December.

The cuts have been imposed so hastily that as of late last month defense planners had not finally decided where the ax would fall. About 40 percent of the cuts, however, will probably take the form of deferred equipment purchases for all three services, with the remainder falling on various support costs and the top-heavy civilian and military administrative structure.

Harm to NATO

Since most of Britain's military efforts focus on NATO, the cuts will inevitably have a detrimental impact on Alliance defense capabilities. Nevertheless, London has indicated it will not consult with NATO about the cuts for the first year and will only be willing to hear Alliance views after the fact. Government officials have promised full NATO consultations for the second year, when Labor moderates may welcome NATO criticism of the cutbacks to strengthen their own arguments in favor of defense spending.

For the present, the government will try to avoid official Alliance commentary on its defense plans for fear of providing additional ammunition to domestic critics. Earlier NATO reports on British defense cuts have stated that additional reductions—such as those announced in December—would adversely affect combat capabilities and have a serious impact on Alliance posture and solidarity.

The West Germans have been especially critical and have expressed the hope

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that when—and if—the British economy recovers, the defense budget will be restored to previously planned levels.

The opposition Conservatives have been quick to seize upon the defense policy issue, although there is little evidence that it has aroused much popular interest. The Tories have even encouraged the uniformed defense chiefs to go over the heads of their civilian superiors and speak out publicly to give the British people an inside view of the cumulative impact of the defense cuts.

The Tories, who have not put forward an alternative program of their own, contend that if returned to office, they would “strengthen Britain’s defenses” while cutting public spending on other programs. They would, however, be hard put to find additional resources for defense given overall economic constraints and the clear limits on how far they could go in rolling back welfare-state programs—presumably their main target—without stirring up political and social unrest.

For the coming fiscal year, the government will probably apply the cuts across the board while trying to fend off charges that “designless hacking and picking” at the budget have spread Britain’s all-purpose forces so thin that the three services are unable to maintain proper levels of combat readiness. The consultations with NATO over the cuts for the following fiscal year, however, will bring British and Alliance officials face to face with the question of whether to maintain a balanced but below-par military establishment in hopes that “something” will come along to permit more money to be allocated for defense.

Missions May Be Reconsidered

Britain’s economic atmosphere, even with the prospect of larger government revenues from North Sea oil, contains little to buoy such hopes. Any British government will have to keep a tight rein on overall public spending if priority industrial recovery projects are to have a chance to succeed. Thus, economic circumstances could lead the UK to seriously consider changing the roles and mis-

sions of British forces.

Some left-wing Laborites have already been pushing this idea. The reductions in defense spending that they demand are so severe that the missions of one or more of the military services would have to be drastically curtailed. Thus far, these arguments have been dismissed by the centrist leadership of the Callaghan government, but continuing economic constraints will force the issue sooner or later.

The expense of maintaining British forces in West Germany—about \$900 million in 1976—would be a tempting target in any large-scale cutback. This mission is a major foreign exchange burden for which the British receive only minor direct compensation from the West Germans.

Talks with the West Germans

In fact, the Anglo-German offset agreement expired last March, and talks since then have failed to produce a new accord. Callaghan has pressed the British case with Chancellor Schmidt, but with little success. The West Germans point out that they have already given major assistance to the UK through their contributions to the International Monetary Fund loan

and the “safety net” for official sterling balances.

Despite his antipathy toward a new offset accord, the West German leader apparently still has sympathy for Callaghan’s budgetary problems and reportedly is considering a “one-shot deal” in which the Germans will pick up certain British maintenance costs, such as for barracks rehabilitation.

British politicians and defense planners are likely to have to face some hard choices on the defense question in another year or so. Cost-saving geographical withdrawals—applied so often in defense cuts during the 1960s and early 1970s—are no longer possible without opting out of some European missions; current policy already calls for pulling back not only into but within the NATO area. Standardization of NATO equipment offers only faint prospects of savings, and that over a long term.

In the end, the shape of the future British defense effort will depend mainly on Britain’s economic well-being. Public opinion, the party in office, and inter-service battles will also influence the outcome.



Prime Minister Callaghan and Chancellor Schmidt during recent talks

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North Korea's recent proposal for an all-Korean political conference designed to bring about reunification of the peninsula is a ploy aimed in part at forestalling any move by the major powers toward an understanding on a long-lasting "two Koreas" split.

North Korea: Pushing Reunification

North Korea is using a peaceful reunification proposal it announced on January 25 to counter South Korean President Pak's recent call for a bilateral nonaggression pact and to forestall possible moves by the major powers toward a permanent division of Korea.

The North Korean proposal was issued in the name of 18 North Korean political organizations, but was reportedly drafted by President Kim Il-song. It calls for a "political conference of representatives of all the political parties, public organizations, and people...in the north and south" that desire reunification. The South Korean government would be allowed to participate on condition it agrees "to withdraw its 'two Koreas' policy and renounce 'anti-communism'." This condition in effect precludes official South Korean participation.

The North has been calling for a broadly based conference for at least five years, but the original concept presented at the North-South talks in 1972 included South Korean government participation. Pyongyang has ruled out further talks with Seoul on the subject since the break-off of the North-South talks in 1973. At this point, North Korea has no realistic hope of negotiating reunification with the Pak government in any forum.

Defensiveness

The North Koreans' proposal reflects

their urgent concern over what they purport to see as "the danger of permanent split." At the gathering that issued the proposal, political committee member Yang Hyong-sop termed the drive against a permanently divided Korea "the most important task facing our people."

The Major Powers

One of Kim's primary worries is that the major powers will formally accept a divided Korea in order to preserve stability in North Asia, thereby foreclosing the possibility of reunification on Kim's terms.

Recent moves by Japan promoting a two-Koreas policy may have heightened North Korea's concern about the prospects for reunification. Yang attacked both Japanese and South Korean authorities for "taking part in the implementation of the two-Koreas policy of the US."

Kim also knows that the Soviets and Chinese tacitly accept a divided Korea. Both powers publicly support the North Korean position on "peaceful reunification," but their backing is much more lukewarm than Kim would like, and the North Koreans have had to intervene with the Soviets in the past to stop certain moves that would have implied a two-Koreas policy.

Given their broader foreign policy interests, the Soviets and Chinese have not publicized the anti-US and anti-Japanese

themes of Kim's letter. They have supported such specific proposals as the demand for a US troop withdrawal, the removal of nuclear weapons from South Korea, and the call for a conference on reunification.

Other considerations have a bearing on the North's decision to refocus its propaganda efforts on peaceful reunification at this time. Previously, North Korean propaganda had harped on the charge that the US military presence was the greatest source of tension on the peninsula—a theme calculated to build support for North Korea's annual UN resolution calling for the withdrawal of US troops. Last fall, after a series of diplomatic setbacks, the North withdrew the UN resolution prior to the debate, and its anti-US campaign subsided.

Now, with a new US administration contemplating a troop reduction, Kim probably believes that a resumption of the anti-US theme would be counterproductive. Moreover, emphasis on reunification could help to forestall any moves by the major powers toward a "two Koreas" understanding that might accompany a US troop reduction.

If the North is thinking along these lines, the current campaign will continue for some time. Pyongyang may well go ahead with its proposed "conference," if only to reap some propaganda benefits.

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